

Message Text

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PAGE 01 KINGST 03671 111354Z

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ACTION SS-30

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C O N F I D E N T I A L KINGSTON 3671

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E.O. 11652: GDS

TAGS: EMIN, EINV, JM, US

SUBJECT: KAISER NEGOTIATIONS WITH GOJ

1. AT INFORMAL MEETING MANAGING DIRECTORS OF BAUXITE COMPANIES, WHICH AMBASSADOR ATTENDED OCTOBER 9, KAISER REP CIRCULATED FOLLOWING CONFIDENTIAL MEMO OUTLINING CURRENT STATE OF KASIER'S NEGOTIATIONS WITH GOJ. BEGIN QUOTE

KAISER BAUXITE COMPANY

REPRESENTATIVES OF KAISER BAUXITE COMPANY (MESSRS LINDEMUTH, MOORE, HONIBALL, CUTLER AND HELLER) MET WITH THE BAUXITE COMMISSION (MESSRS ROUSSEAU, MATALON AND RICHARDSON) AND COMMISSION STAFF MEMBERS ON TUESDAY, OCT. 1 (10:30 - 12:30, 3:30 - 5:30) AND WEDNESDAY, OCT 2 (11:30 - 1:30). THE DISCUSSIONS WERE FRANK AND CORDIAL.

THE COMMISSION REPRESENTATIVES STATED THEY WISHED TO COMPLETE NEGOTIATIONS WITH KAISER ON ALL ISSUES BEFORE BEGINNING DISCUSSIONS WITH OTHER COMPANIES, (EXCLUDING REVERE). THE KAISER TEAM SAID THAT KAISER WISHED TO NEGOTIATE ALL ISSUES AS A PACKAGE AND THAT NO AGREEMENT COULD BE REACHED UNTIL ALL ISSUES WERE RESOLVED, INCLUDING REVENUE.

NO AGREEMENT WAS REACHED ON ANY ISSUE. THE FOLLOWING IS A BRIEF OUTLINE OF THE SUBJECTS DISCUSSED AT THE MEETINGS:

1) LAND - COMMISSION MEMBERS STATED THE GOVERNMENT WANTED BAUXITE LANDS FOR EXPANSION PURPOSES, AND PROPOSED A) PURCHASE OF ALL LANDS OTHER THAN PLANT, PORT AND OTHER FACILITIES REQUIRED FOR MINING AT COST, LESS DEPLETION, AND B) LEASE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINGST 03671 111354Z

OF LAND WITH RESERVES TO KAISER FOR 20 YEARS' OPERATION.

THE KAISER POSITION WAS THAT IT WOULD BE WILLING TO SELL ALL SUCH LANDS AT A FAIR PRICE, AS LONG AS IT HAD LEASE RIGHTS WHICH WOULD GIVE IT THE SAME MINING ACCESS ETC. THAT IT NOW HAD, AND AS LONG AS IT HAD ENTITLEMENT TO 40 YEARS OF RESERVES.

IT WAS AGREED THAT TECHNICAL DISCUSSIONS BETWEEN KAISER AND COMMISSION REPRESENTATIVES WOULD BE HELD AS SOON AS POSSIBLE.

2) MINIMUM PRODUCTION STANDARDS - KAISER REPRESENTATIVES STATED THAT THE PRESENT PRODUCTION QUOTA WAS UNWORKABLE AND THAT EITHER THE QUOTA SHOULD BE ELIMINATED OR THE QUOTA SHOULD CONTAIN EXCEPTIONS FOR FORCE MAJEURE AND MARKET CONDITIONS. THE COMMISSION MEMBERS SAID THE QUOTA MUST BE MAINTAINED BUT THAT PERHAPS EXCEPTIONS ALONG THE LINES SUGGESTED COULD BE DEVELOPED.

3) REVENUE - KAISER PROPOSED AN ADJUSTMENT TO THE PRODUCTION LEVY EFFECTIVE JANUARY 1, 1975. THE LEVY WOULD BE ADJUSTED PROPORTIONATELY UP AND DOWN FROM 7.5 PERCENT TO THE EXTENT KAISER'S RETURN ON SALES FOR ITS ALUMINUM DIVISION DEVIATED FROM A FULCRUM, WHICH WAS TO BE LEFT TO NEGOTIATION. A FLOOR OF 5.5 PERCENT AND A CEILING OF 9.5 PERCENT WERE SUGGESTED.

THE COMMISSION DID NOT ACCEPT THE PROPOSAL, BUT AGREED TO STUDY IT FURTHER.

4) INCOME TAX CREDIT - KAISER REPRESENTATIVES POINTED OUT THAT THERE WAS AS YET NO CREDIT AGAINST THE PRODUCTION LEVY FOR INCOME TAX PAID. THE COMMISSION DID NOT OBJECT TO THE CREDIT AND SUGGESTED, IN THE INTEREST OF EXPEDITION, THAT KAISER SUBMIT ITS PROPOSAL DIRECTLY TO THE COMMISSION.

5) FOREIGN EXCHANGE - THE COMMISSION STATED THAT IT WISHED TO PROPOSE AN APPROACH MODELLED AFTER THE SURINAM, AND SUGGESTED THAT A FOREIGN EXCHANGE TRANSFER FEE OF 1/3 OF 1 PERCENT BE IMPOSED IN LIEU OF EXCHANGE CONTROL.

6) MOST FAVORED NATION PROVISION - THE COMMISSION SAID THAT THERE WOULD BE NO MOST FAVORED NATION PROVISION IN ANY AGREEMENT.

7) PARTICIPATION - THE COMMISSION STATED THAT JAMAIC WISHES TO PARTICIPATE IN KAISER BAUXITE COMPANY ON A 50-50 BASIS. KAISER REPRESENTATIVES STATED THAT IN PRINCIPLE KAISER DOES NOT OBJECT TO PARTICIPATION SO LONG AS THE TERMS WOULD NOT INCREASE NET COST TO KAISER OF JAMAICAN BAUXITE AND WOULD NOT DISTURB KAISER'S RIGHT TO MANAGE THE OPERATIONS OF KAISER BAUXITE COMPANY. THE REFERRED

CONFIDENTIAL

PAGE 03 KINGST 03671 111354Z

TO THE POSSIBILITY OF A FIXED DIVIDENT SECURITY REPRESENTING AN INTEREST-TYPE OF RETURN ON THE INVESTMENT AND TO THE TYPES OF MANAGEMENT AGREEMENTS WORKED OUT IN OTHER MINING JOINT VENTURES. THE JAMAICAN REPRESENTATIVES EXPRESSED INTEREST AND ASKED TO SEE COPIES OF TYPICAL MANAGEMENT AGREEMENTS. THE KAISER REPRESENTATIVES ALSO POINTED OUT THAT PARTICIPATION RAISED COMPLEX LEGAL AND TAX QUESTIONS WHICH WOULD HAVE TO BE RESOLVED IN THE NEGOTIATIONS AND THAT BOTH SIDES SHOULD CAREFULLY STUDY THE ISSUES.

BOTH SIDES EXPRESSED INTEREST IN HAVING JAMAICA ACQUIRE AN INTEREST IN KAISER ALUMINIUM AND CHEMICAL CORPORATION AT A PRICE REFLECTING THE LONG TERM VALUE OF THE STOCK.

8) EXPANSION - THE COMMISSION WAS QUITE INTERESTED IN EXPANSION, AND REFERRED TO VARIOUS PROPOSALS FOR ALUMINA AND ALUMINUM PLANT CONSTRUCTION IN JAMAICA AND ELSEWHERE.

KAISER STATED ITS ALUMINA POSITION WAS IN SUBSTANTIAL BALANCE FOR THE NEXT SEVERAL YEARS AND THAT ITS INTEREST IN EXPANDING IN JAMAICA IS DEPENDENT ON ITS ASSESSMENT OF ITS SUPPLY AND DEMAND SITUATION ALTHOUGH IT WOULD STUDY ANY PARTICULAR PROPOSALS AND MIGHT TAKE A SMALL PARTICIPATION. IT WAS AGREED THAT NEGOTIATIONS WOULD RESUME ON OCTOBER 23 OR 24. END OF QUOTE.

2. SIGNIFICANT REMARKS OTHER COMPANY REPS AT MEETING
BEING REPORTED SEPTTEL.
GERARD

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